

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF CALIFORNIA

KEITH STAFFORD, an individual,)
Plaintiff,) CIV. S-04-47 GEB PAN
v.)
UNITED TREASURES, INC., a)
Washington corporation,)
Defendant.)

)

Pending are cross motions for summary judgment or for summary adjudication. The motions were heard April 18, 2005. At this hearing, the parties agreed that no genuine issues of material fact exist preventing decision on the liability issues involved in the motions. Therefore, each party was requested to file a prevailing party proposed order. On May 2, 2005, proposed orders were filed, and responses thereto were filed on May 9, 2005.

The pending motions involve copyright, trademark and issues arising out of an alleged breach of a licensing agreement. The following facts are undisputed.¹

¹ Local Rule 56-260 obligates the parties to "cite the particular portions of any pleading, affidavit, deposition, interrogatory answer, admission or other document relied upon to

(continued...)

1 1. Keith Stafford ("Stafford") and United
2 Treasures, Inc. ("UTI") entered a license
2 agreement dated August 1, 1999.

3 ***

4 15. Following the execution of the License
5 Agreement, Stafford submitted two-dimensional
5 artwork to UTI to use to make polyresin figurines.

6 ***

7 18. Stafford in fact exercised control and
8 approval over the quality of the GOODS during the
8 process of developing them.

9 19. Stafford came up with the name ANGELS OF
10 INSPIRATION and instructed UTI on the proper
10 trademark to use.

11 20. UTI's own agents and representatives have
12 admitted they understood Stafford was the owner of
12 the trademark ANGELS OF INSPIRATION.

13 ***

14 22. On or about September 28, 2001 United
15 Treasures filed an application for, and ultimately
15 obtained, federal registration of the mark ANGELS
16 OF INSPIRATION.

17 ***

18 24. The name of Keith Stafford and Stafford's
19 Ethnic Collectibles was prominently and regularly
19 featured in United Treasures' advertisements for
19 ANGELS OF INSPIRATION.

20 25. The label attached that was originally
21 attached by United Treasures to its angel
21 figurines said "Angels of Inspiration by Keith
22 Stafford" and continued to do so until 2004.

23 ***

24 ¹(...continued)

25 establish [a] fact" asserted to be undisputed or disputed. Although
26 UTI asserts Stafford's Undisputed Facts Nos. 15, 17, 18, 20, and 33
27 are disputed, UTI's evidence and argument do not constitute specific
28 facts establishing a genuine issue of material dispute as to any of
28 these facts.

1 28. Stafford owns the copyrights in the two-dimensional artwork for Kente Claus and the Angels
2 of Inspiration that was submitted to UTI in 1999.

3 29. Stafford obtained federal registration of his
4 COPYRIGHTS in (a) the 2-dimensional artwork he
5 submitted to United Treasures, (b) the figurines
6 that UTI had made reproducing his artwork, and (c)
7 the 2-dimensional artwork for the second series of
8 angels in 2001.
9

10 ***
11

12 32. From the first sale of the figurines until
13 2004 the only copyright used by United Treasures
14 on the figurines themselves was ©1999 Keith &
15 Shereen Stafford.
16

17 33. During the process of developing figurines,
18 Stafford was intimately involved in review of
19 sculptural changes and in providing specific
20 design suggestions over the telephone with Colleen
21 Melott.
22

23 ***
24

25 45. Stafford owns the copyright in the two-dimensional artwork for the Angels of Inspiration
26 and Kente Claus, which were submitted to UTI and
27 upon which the UTI figurines were based.
28

29 46. Stafford has registered his copyrights in the
30 two-dimensional artwork he submitted and in the
31 finished figurines for the original seven angels,
32 and in just the two-dimensional artwork for the
33 second series of three angels.
34

35 (Def.'s Resp. to Pl.'s Separate Statement of Undisputed Material Facts
36 in Supp. of Mot. for Summ. Adjudication.)
37

38 BACKGROUND²
39

40 Plaintiff Keith Stafford began making ethnic figurines and
41 artwork in 1994, when he started the business Stafford's Ethnic
42 Collectibles with his wife, Shereen. Beginning in 1994 Stafford sold
43 a line of African angel dolls, and his sales grew. In 1995, Stafford
44

45 ² This background is substantially quoted from Plaintiff's
46 Proposed Order on Motions for Summary Judgment filed May 2, 2005.
47 Except as otherwise indicated, no genuine issue of material fact
48 exists as to the facts stated in this Order.
49

1 developed the figure of Kente Claus, an African Santa Claus ornament.
2 Stafford ultimately developed, and through a series of license
3 relationships, marketed and sold, a series of products based upon his
4 angel and Kente Claus designs.

5 In early 1999 Stafford's agent, Anmarie Linsley, owner of an
6 agency firm, Public Image Consultants, met representatives of UTI at a
7 trade show in Los Angeles, California. They saw samples of Stafford's
8 work and expressed interest in negotiating a license deal for his
9 work. Linsley sent one of the representatives, Matt Lord, a
10 confirming letter. Thereafter, the parties negotiated the terms of a
11 license agreement ("Licensing Agreement"), pursuant to which UTI would
12 manufacture and sell polyresin figurines based upon artwork provided
13 by Stafford. At the time the Licensing Agreement was entered, the
14 artwork upon which the polyresin figurines were to be based did not
15 exist. In July 1999 Stafford entered a work for hire agreement with
16 an illustrator named Thomas Blackshear, who was to prepare
17 illustrations to submit to UTI based upon Stafford's Kente Claus
18 figure. Blackshear prepared artwork, and Stafford submitted it to
19 UTI. Stafford also retained another artist named Robert Grist, who,
20 under the terms of a work made for hire agreement, prepared
21 illustrations for seven African angel figurines based upon Stafford's
22 recommendations. There is some dispute about exactly what artwork
23 Stafford provided to UTI after executing the Licensing Agreement.
24 Stafford testified that in the fall of 1999 he submitted to UTI
25 two-dimensional line drawings and color artwork for seven angel
26 figurines, which Stafford had individually named Joy, Unity, Peace,
27 Happiness, Love, Faith, and Mercy. UTI admits Stafford submitted
28

1 two-dimensional artwork that was used to make the figurines, but its
2 account is somewhat different.

3 After Stafford submitted his artwork, UTI, working with
4 artists located in China, manufactured eight painted polyresin
5 figurines, seven of which were based upon Stafford's Joy, Unity,
6 Peace, Happiness, Love, Faith, and Mercy designs, and one of which was
7 based upon his Kente Claus design. Photographs of these were e-mailed
8 to UTI's customer service representative, Colleen Melott, and to
9 Stafford. Melott and Stafford then talked on the telephone to discuss
10 changes to be made to the figurines. Melott was Stafford's main
11 contact for UTI for the development of the figurines. Melott sought
12 Stafford's approval on changes and design recommendations.

13 Although the parties dispute some of the details and the
14 legal consequences of their respective contributions to the
15 development of the figurines following the submission of Stafford's
16 two-dimensional artwork, the crucial material facts concerning the
17 development of the figurines are undisputed: first, Stafford
18 contributed copyrightable artwork in the form of two-dimensional
19 illustrations and line drawings for the express purpose of
20 incorporating the artwork into three-dimensional figurines; second,
21 Stafford was involved, through telephone conversations with Colleen
22 Melott, in reviewing, proposing, and authorizing changes to the color
23 and form of the figurines during the sculpting process; and, third,
24 UTI was contractually obligated to seek Stafford's approval, and
25 throughout the development process did seek and obtain Stafford's
26 approval, for the design of the figurines.

27 As was required of UTI under the terms of the Licensing
28 Agreement, UTI sought and obtained Stafford's approval for the

1 specific form of the copyright notice to be placed on the figurines.
2 Stafford authorized the notice "© 1999 Keith & Shereen Stafford," and
3 the parties do not dispute that this was the sole copyright notice
4 used on the figurines until 2004.

5 During the development process Stafford also came up with
6 the trademark ANGELS OF INSPIRATION, and he authorized this mark to be
7 used in connection with the angels. UTI also sought and obtained, by
8 letter from Lord, Stafford's approval concerning the form of the
9 trademark notice for KENTE CLAUS.

10 The figurines began being sold in 2000. From the beginning
11 a hang tag was placed on the figurines that said "ANGELS OF
12 INSPIRATION by Keith Stafford." Throughout 2000 and beyond UTI
13 consistently advertised Stafford as the copyright owner of the
14 figurines and consistently featured Stafford's name in connection with
15 the ANGELS OF INSPIRATION mark. The parties agree that this first
16 commercial use of the mark ANGELS OF INSPIRATION was by UTI.

17 In 2001 Stafford and UTI began working on an additional
18 series of angel figurines to be sold under the ANGELS OF INSPIRATION
19 mark. Their names were to be Blessed, Guidance, and Grace. Stafford
20 and UTI began working on developing the figurines even before they had
21 negotiated a new contract to cover them. As before, Stafford
22 submitted two-dimensional artwork that had been prepared by an artist
23 under a work for hire agreement. The parties negotiated the terms of
24 a new contract to cover this new artwork, but ultimately the parties
25 could not agree on the terms of a new contract.

26 In 2001 each of the parties, without informing the other,
27 registered copyrights in the figurines. Stafford registered
28 copyrights in the two-dimensional artwork for the original seven

1 Angels of Inspiration, in the original seven figurines themselves, and
2 in the artwork and drawings for the second series of three angels.
3 Meanwhile, UTI registered copyrights in the original seven figurines,
4 and in the three additional figurines over which the parties had
5 failed to execute a new contract. No agreement had ever been signed
6 by Stafford and UTI giving UTI these copyrights. Further, UTI filed
7 an application for the mark ANGELS OF INSPIRATION on September 28,
8 2001.

9 In 2002 Stafford entered an agreement with a company called
10 Sarah's Attic, Inc. to make and sell figurines based upon new designs
11 under the Angels of Inspiration name. The new angels - Worthy,
12 Courage, Comfort, and Forgiveness - were based upon new illustrations
13 provided by Stafford to Sarah's Attic. The parties do not dispute
14 that these angels are not based upon the angels made under Stafford
15 and UTI's Licensing Agreement. In addition, Stafford licensed Sarah's
16 Attic to make four-inch Christmas figurines based upon four of the
17 angel designs -- Joy, Love, Peace, and Unity - that Stafford had
18 submitted to UTI in 1999 under the Licensing Agreement. Stafford also
19 licensed Sarah's Attic to make three additional figures based upon the
20 three angel designs -- Guidance, Blessed, and Grace - for which
21 Stafford and UTI had failed to enter a new contract in 2002.

22 In April 2003 Stafford entered another license agreement
23 with Perkins, Inc. to permit Perkins to take photographs of the Angels
24 of Inspiration figurines being sold by UTI and to use the photographs
25 in calendars. In December 2003 UTI sent Sarah's Attic and Perkins
26 cease and desist letters and then sued them in federal court in the
27 State of Washington.

The key issues to be resolved in the cross-motions for partial summary judgment are the interpretation of the Licensing Agreement and determination of which party owns the copyrights and trademark.

DISCUSSION

Each party contends that the Licensing Agreement is unambiguous and that it entitles each party to claim ownership of the polyresin figurines. Stafford asserts he licensed only a narrow right to UTI to reproduce his artwork in a specified medium, and that this did not convey a right to UTI which authorized it to own WORKS derived from Stafford's artwork. UTI asserts that the Licensing Agreement transferred more rights to it, arguing:

When placed in context, and taking into consideration the language of the contract as a whole, it is clear that the instant Licensing Agreement conferred Stafford's right to create derivative works to UTI. While it is true that the word "reproduce" is found in the license's Grant Clause, and that the Grant Clause does not contain the phrase "derivative works," a plain reading of the contract demonstrates that the parties intended that UTI would use Stafford's two-dimensional sketches of angels to create new three-dimensional, color and more complete poly resin figurines. Since the two-dimensional sketches were transformed into both a different form of art and a more elaborate work of art, the figurines are derivative works as a matter of law.

Specifically, as set forth above, the Licensing Agreement confers the exclusive right to UTI ". . . to reproduce the WORKS on the GOODS" According to Schedule A found at page 8 of the Licensing Agreement, the "WORKS" include "Six Angel images . . .". According to Schedule B (also found at page 8 of the Agreement), the term "GOODS" means "Poly Resin Figurines". Taken together and inserted into the Grant Clause, that clause reads that UTI ". . . shall have the exclusive right . . . to reproduce the [Six Angel images] on the [Poly Resin Figurines].["] Accordingly, by its terms, the Licensing Agreement conferred to UTI the exclusive right to reproduce

1 the two-dimensional sketches of angels on three-
2 dimensional poly resin figurines.

3 Transference of the derivative work right to UTI
4 comports with the use of the word "reproduce" in
5 the Licensing Agreement. By definition, a
6 derivative work requires that the creator of the
7 derivative work "reproduce" a substantial portion
8 of the original work in his or her new
9 creation[.]³

10 (Def.'s Proposed Order on Cross-Motions for Summ. J. at 10-11.)

11 Stafford rejoins that "as the licensor he is entitled to
12 ownership of the copyright, and UTI's rights are only those of a
13 licensee." (Pl.'s Proposed Order on Cross-Motions for Summ. J. at
14 10.) Stafford also asserts that "under the terms of the License
15 Agreement (specifically; paragraphs 3, 5, and 11), [UTI's] use [of the
16 trademark Angels of Inspiration was] for the benefit of the licensor,
17 or Stafford"; and therefore, he is "the proper owner of the mark."

18 (Pl.'s Resp. to UTI's Proposed Order on Motions for Summ. J. at 7.)

19 The Licensing Agreement was formed in California and
20 contains a choice-of-law clause which states that California law
21 governs its interpretation. UTI argues that its federal registration
22 of the "Angels of Inspiration" trademark is *prima facie* evidence of
23 its ownership of the mark, and constitutes a presumption of ownership
24 that can only be overcome by a showing that meets the preponderance of
25 evidence standard. Sengoku Works Ltd. v. RMC Int'l, Ltd., 96 F.3d
26 1217, 1220-21 (9th Cir. 1996). Similarly, UTI argues it is the
27 copyright holder in the polyresin figurines under the first sale
28 doctrine.

3 At the April 18 hearing on the motion, UTI's counsel
indicated that UTI's claim to derivative work was implied from
language in the Licensing Agreement.

1 "[G]eneral principles of contract interpretation [are
2 applied] when interpreting the terms and scope of a licensing
3 agreement." Miller v. Glen Miller Productions, 318 F. Supp. 2d 923,
4 934 (C.D. Cal. 2004). "Summary judgment is appropriate when the
5 contract terms are clear and unambiguous, even if the parties disagree
6 as to their meaning. Interpretation of a contract is a matter of law,
7 including whether the contract is ambiguous." United States v. King
8 Features Entertainment, Inc., 843 F.2d 394, 398 (9th Cir.
9 1988) (citations omitted).

10 The Licensing Agreement states as its purpose that the

11 LICENSOR . . . grant[s] LICENSEE the right to
12 reproduce LICENSOR'S designs described at **Schedule**
13 **A** attached hereto and any other designs which may
14 later be added to **Schedule A** (WORKS) according to
15 Paragraph 8 on the GOODS described at **Schedule B**
16 attached hereto or any other GOODS which may be
later added by mutual written agreement to
Schedule B (GOODS) . . . and to use LICENSOR'S
trademarks and or copyrights described at
Schedule C (TRADEMARKS/COPYRIGHTS) on the GOODS
incorporating reproductions of the WORKS.

17 Paragraph 8 states in pertinent part "Such new WORKS shall
18 be subject to all the terms and conditions of this Agreement."
19 Further, in the "Acknowledgments" and "Grant" sections of the License,
20 the

21 LICENSEE acknowledges and agrees that LICENSOR is
22 the sole owner of all rights, in and to the WORKS
now described in **Schedule A** and any new WORKS to
be added to **Schedule A** by LICENSOR. LICENSEE
acknowledges that said WORKS and each of them are
the unique creations of LICENSOR and that the
WORKS carry with them unique design elements which
constitute a protectable trade dress for
LICENSOR's products. Furthermore, LICENSEE
acknowledges that the trademarks and COPYRIGHTS
have become distinctive of LICENSOR'S GOODS
throughout the TERRITORY and that the maintenance
of quality of GOODS sold in connection with the
TRADEMARKS and COPYRIGHTS is an important interest
of LICENSOR

1 . . . During the [license] TERM . . . , and
2 provided that LICENSEE complies with all the
3 term[s] and conditions hereof, LICENSEE shall have
4 the exclusive right throughout the TERRITORY to
5 reproduce the WORKS on the GOODS and to use the
6 TRADEMARKS and COPYRIGHTS on such GOODS
7 incorporating reproductions of the WORKS. Any and
8 all rights in and to the WORKS and TRADEMARKS and
9 COPYRIGHTS not expressly granted to the LICENSEE
10 are hereby reserved by LICENSOR.
11
12

13 The "artwork" section of the license states in pertinent
14 part the

15 LICENSEE may not use this artwork for any purpose
16 except to make reproductions of the WORKS on the
17 GOODS for distribution in the TERRITORY during the
18 TERM. Until such time as LICENSEE is obligated to
19 return the artwork to LICENSOR as mentioned above,
20 LICENSEE shall keep such artwork in a safe and
21 secure place and ensure that the same is not made
22 available to any other person for any purpose.
23 LICENSEE agrees not to reproduce the artwork to
24 the WORKS except during the TERM and under the
25 terms and conditions specified hereunder.

26 The "Quality Control" section of the license states in
27 pertinent part the

28 LICENSEE shall use the TRADEMARKS and or
29 COPYRIGHTS on the GOODS as prescribed in writing
30 by LICENSOR, including any statutory or other
31 notice or symbol of trademark registration.
32 LICENSEE shall use LICENSOR'S copyright notices,
33 as prescribed by LICENSOR, on all reproductions of
34 the WORKS as described at Schedule A shall be
35 "©1999 Keith and Shereen Stafford" such dates for
36 each of the WORKS being determined by first
37 production run.

38 Lastly, the Licensing Agreement contains an integration
39 clause providing that:

40 This Agreement represents the complete
41 understanding between the parties as to its
42 subject matter and supersedes all prior
43 understandings, if any, as to its subject matter.
44 No modification or amendment, nor any promise,
45 waiver or representation (past, present or future)
46 shall be valid or binding unless made in writing
47 and signed by the party to be bound thereby.

1 The language in the Licensing Agreement is unambiguous. UTI
2 acquired the right to reproduce Stafford's artwork, but Stafford
3 retained all ownership rights. In the context of the parties' entire
4 agreement, it is clear that the "right of reproduction" was not
5 intended to convey to UTI any ownership right in any of the works
6 created under the Licensing Agreement; all ownership rights in the
7 works, trademarks, and copyrights were "reserved by" Stafford. The
8 literal language of the Licensing Agreement, which provides that the
9 LICENSOR "reserved" "any rights in and to the WORKS and TRADEMARKS and
10 COPYRIGHTS not expressly granted to the LICENSEE," plainly encompasses
11 not only copyright and trademark ownership, but also ownership of any
12 "works" of the LICENSEE under the Licensing Agreement.

13 Ownership rights in a trademark or service mark
14 can be acquired and maintained through the use of
15 the mark by a controlled licensee even when the
16 first and only use of the mark was made, and is
17 being made, by the licensee. This is because use
of a designation as a mark by a qualified licensee
inures to the benefit of the licensor, who as a
result becomes owner of the trademark or service
mark rights in the designation.

18 McCarthy on Trademarks, § 18:46 (emphasis added).

19 Section 5 of the Lanham Act definitely
20 contemplates that a trade or service mark may be
acquired through its use by controlled licensees,
even though the registrant itself may not have
used the mark.

22 Turner v. HMH Publ'g Co., 380 F.2d 224, 229 (5th Cir. 1967). This is
23 what occurred in this case. Accordingly, Stafford is the lawful owner
24 of the mark ANGELS OF INSPIRATION because UTI's usage of that mark
25 inures to the benefit of Stafford under the Licensing Agreement.
Therefore, Stafford is entitled to either have UTI's registration of
27 the mark cancelled or is entitled to an assignment of rights in the
28 mark by UTI to Stafford.

1 UTI's argument that the Licensing Agreement "conferred
2 Stafford's right to create derivative works to UTI" is based upon the
3 contention that an implied covenant can overrule or modify the express
4 terms of the Licensing Agreement. But it is pellucid that "terms that
5 conflict with an express written contract cannot be implied in a
6 written contract." Kucharczyk v. Regents of Univ. of Cal., 946 F.
7 Supp. 1419, 1432 (N.D. Cal. 1996) (citing Tollefson v. Roman Catholic
8 Bishop, 219 Cal. App. 3d 843, 855 (1990)). Moreover, the integration
9 clause in the Licensing Agreement prevents the use of parol or
10 extrinsic evidence "to vary or contradict the terms of [the]
11 integrated written [Licensing Agreement]." Traumann v. Southland
12 Corp., 842 F. Supp. 386, 390 (N.D. Cal. 1993) (citing Masterson v.
13 Sine, 68 Cal. 2d 222 (1968)). Thus, UTI's indication that an implied
14 agreement overrides the integration clause is unavailing.

15 The license must be construed in accordance with
16 the purposes underlying federal copyright law.
17 Chief among these purposes is the protection of
18 the author's rights. We rely on state law to
19 provide the canons of contractual construction,
but only to the extent such rules do not interfere
with federal copyright law or policy. . . .
Copyright licenses are assumed to prohibit any use
not authorized.

20 S.O.S., Inc. v. Payday, Inc., 866 F.2d 1081, 1088 (9th Cir. 1988)
21 (citations omitted).⁴

22 Construing the Licensing Agreement in accordance with the
23 purposes underlying federal copyright law makes it obvious that
24
25

26 _____
27 ⁴ S.O.S. also cites 17 U.S.C. § 204(a) (stating "transfer of
copyright ownership must be in writing."). As stated in Chamberlain
v. Cocola Ass'n., 958 F.2d 282, 285 (9th Cir. 1992), among "the
exclusive rights" the owner of a copyright has is "to prepare
derivative works based upon copyrighted work. . . ."

1 Stafford is the lawful owner of the copyrighted polyresin figurines.⁵
2 Nothing in the Licensing Agreement authorized UTI to copyright the
3 figurines. Accordingly, Stafford is granted declaratory relief that
4 Stafford is the sole owner of the copyrights in the figurines, and
5 UTI's copyright registrations are invalid and unenforceable.
6 Therefore, Stafford's partial summary judgment motion for a
7 declaration that the Staffords are the lawful copyright owners of the
8 figurines is granted.

Because of the above rulings, UTI's counterclaims against Stafford for copyright infringement, trademark infringement, false

12 5 The public policy of California as evidenced in California
13 Civil Code section 988 is in accordance with this holding since that
14 statute indicates that, even in a situation where an ambiguity is
15 present, "any ambiguity with respect to the nature or extent of the
16 rights conveyed shall be resolved in favor of the reservation of
17 rights by the artist or owner, unless in any given case the federal
copyright law provides to the contrary." "As a legislative enactment,
[a California statute] becomes public policy." English v. Marin Mun.
Water Dist., 66 Cal. App. 3d 725, 730 (1977) (overruled on other
grounds). When section 988 was construed in Chamberlain, the Ninth
Circuit stated in part:

[W]hen the California statute is read in conjunction with the federal copyright law and the California statute's own legislative history, the most reasonable interpretation of the California statute is that where there is an express, written conveyance of one or more of the limited rights listed in it, there can be no accompanying transfer of ownership unless the transfer of ownership is also in writing.

25 California's section 988 simply refines this
26 requirement to direct that there be not merely an
agreement, but a written agreement before a
27 transfer of property rights may accompany a
transfer of copyright rights.

²⁸ Chamberlain, 958 F.2d at 285.

1 designation of origin, state unfair competition, and declaratory
2 relief are dismissed and UTI's motion for partial summary judgment is
3 denied. The remaining issues will be tried.

4 IT IS SO ORDERED.

5 Dated: May 17, 2005

6 /s/ Garland E. Burrell, Jr.
7 GARLAND E. BURRELL, JR.
8 United States District Judge

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